

# The Manufacturers Hanover Financial Digest

Weekly Commentary,  
Selected Financial Data,  
and Business Indicators

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## As Recovery Strengthens . . .

With the Holiday shopping season now underway, it is possible that American consumers will indulge in a shopping spree not seen in at least five years. The brighter economic outlook, slowing of inflation, growing employment and incomes should spur consumers to loosen their purse strings and step up spending. This would set the stage for a strong Holiday sales season—the time when retailers ring up a major portion of their annual sales.

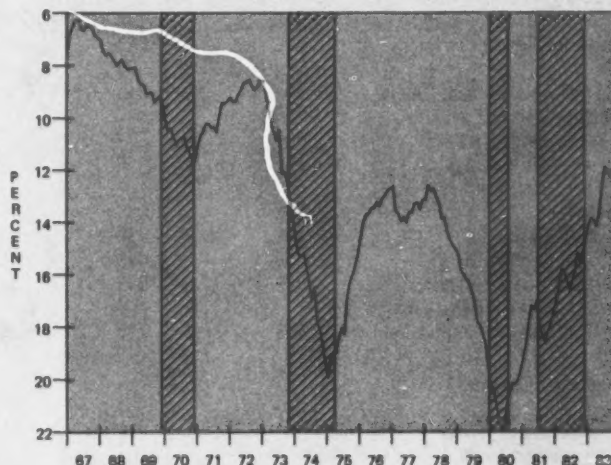
Spending by consumers is usually influenced to a large extent by the near-term outlook for the economy in general, and their employment and income prospects in particular. On all counts, consumers have reasons to cheer. As the U.S. recovery begins its second year, the economy is enjoying strong growth, yet modest inflation, and consumers are reaping the benefits. Personal incomes are growing faster than prices, leading to the gains in buying power necessary for most people to lift their rates of spending. After adjustment for inflation and taxes, "real disposable" income rose at an annual rate of 6.7 percent in the third quarter—the strongest advance in two years. At this time last year, real disposable income was shrinking.

Unemployment is down. October's reading puts the key civilian unemployment rate exactly two percentage points below the post-World War II peak of 10.8 percent recorded in December, 1982. And while the jobless rate is still high by postwar standards, the number of people with jobs is close to a record level. What is more, the employment rate (the number of people employed as a percent of the population over 16 years old) is 58.3 percent, compared with its postwar average of 57 percent.

Last year at this time, as the economy was touching the low point of the recession, unemployment was climbing to its postwar high. The year before, the unemployment rate had begun to climb and there was a feeling that hard times lay ahead. And while the unemployment rate was declining during the second half of 1980, buying power was suffering because of the double-digit rate of inflation. The discomfort index—the sum of the inflation and unemployment rates—was nearly 22 percent at this

time three years ago; today it is less than 12 percent—the lowest in ten years (see chart). Future employment prospects remain bright. The Conference Board reports that the volume of help-wanted advertising in U.S. newspapers—a harbinger of additional hiring prospects—rose again in the latest month.

DISCOMFORT INDEX  
(INVERTED SCALE)



## . . . Consumers Loosen Purse Strings . . .

It is hardly surprising, then, that consumer spirits and buying intentions are brightening. The Conference Board's buying plans index, which measures consumers' intentions to purchase automobiles, houses, large appliances or home furnishings in the next six months, recently posted a substantial gain. Meanwhile, the latest University of Michigan survey shows that consumers are more willing to incur new debt and use savings today than at any other time in the past four years.

And, indeed, consumers have already begun to buy more. The nation's automakers reported that sales in October ran at a seasonally adjusted seven million unit annual rate—31 percent above year-ago levels. Whereas earlier this year the surge in domestic auto sales was primarily a response to incentives offered by automakers and dealers, the absence of these



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today, while sales remain strong, reflects consumers' confidence in their personal economic prospects and their willingness to satisfy pent-up needs for new cars. In addition, the stability of oil prices and ample supplies of gasoline have lessened their influence on people's decisions to purchase cars. This has shifted the preference of many buyers to larger cars, which are more profitable to produce and sell. Not only are more people buying larger cars but they also are buying more accessories, increasing average car prices.

Consumers are stepping up their spending on other big-ticket items as well. In September, sales of new single-family homes, for example, climbed 13.7 percent above their August pace, and almost 34

percent above last year's levels. Overall, consumer expenditures advanced at an annual rate of 7.6 percent in the third quarter. Although this increase was just over half of the 15.1 percent gain in the previous quarter, most of the slowdown stemmed from reduced expenditures on motor vehicles due largely to a shortage of popular models. Spending on non-auto durables rose at a 9.2 percent annual rate while spending on non-durables advanced about ten percent.

Consumers have the ability to raise their outlays even higher. In the last 15 months, households have enjoyed a steady rise in real net financial assets as strong gains in the stock and bond markets improved considerably people's balance sheets. At

## Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

|                                                              | Week Ending<br>10/26/83 | % Change Since    |          |
|--------------------------------------------------------------|-------------------------|-------------------|----------|
|                                                              |                         | Week Ago          | Year Ago |
| Reserve Bank Credit                                          |                         |                   |          |
| U.S. Gov'ts and Agencies                                     |                         |                   |          |
| Owned Outright & RPs                                         | 158.058                 | + .482            | + 16.363 |
| Loans to Depository Inst.                                    | .568                    | - .009            | + .116   |
| Float                                                        | 1.250                   | - .501            | - .481   |
| Total Reserve Bank Credit                                    | 169.101                 | + .240            | + 15.324 |
| Treasury Deposits with                                       |                         |                   |          |
| Federal Reserve Banks                                        | 5.829                   | + .571            | + 3.055  |
| Currency Outside Banks                                       | 146.065                 | - .559            | + 13.417 |
| Member Bank Reserves:                                        |                         |                   |          |
| Required                                                     | 38.162                  | + .068            | - 2.607  |
| Excess (Deficiency)                                          | .376                    | + .030            | + .057   |
| Total Reserves Held                                          | 38.538                  | + .098            | - 2.550  |
| Net Borrowed Reserves                                        | .043                    | + .046            | + .179   |
| Gov'ts held for Foreign Acct.<br>by F.R. Banks (End-of-Week) | 110.108                 | - 2.777           | + 9.905  |
|                                                              |                         | % Change Since    |          |
|                                                              |                         | Three Months Ago* | Year Ago |
| Monetary Aggregates †                                        |                         |                   |          |
| M1                                                           | 518.3                   | + 2.1‡            | + 10.6‡  |
| M2 (September '83)                                           | 2,145.1                 | + 5.8             | + 11.9   |
| M3 (September '83)                                           | 2,543.4                 | + 7.1             | + 9.0    |
| Domestic Nonfinancial Debt<br>(2nd Q'83)                     | 4,939.1                 | + 11.7            | + 10.3   |

† Seasonally adjusted.

\* Seasonally adjusted annual rate.  
‡ Four-week moving average.

## New York Money Market

|                                                     | 3 Months                   | 6 Months               | 1 Year |
|-----------------------------------------------------|----------------------------|------------------------|--------|
| Offering Rates 11/4/83                              |                            |                        |        |
| \$ U.S. Treasury Bills                              | 8.70%                      | 8.85%                  | 9.10%  |
| * Federal Agencies                                  | 8.85                       | 9.15                   | 9.75   |
| * Project Notes—Taxfree<br>(46% Taxable Equivalent) | 9.44                       | 9.81                   | 10.65  |
| Negotiable Time CDs                                 |                            |                        |        |
| Manufacturers Hanover                               | Rates By Arrangement       |                        |        |
| * Secondary Market—Prime                            | 9.45                       | 9.50                   | 10.05  |
| \$ Finance Company Paper—Prime                      |                            | * Bankers' Acceptances |        |
| 5- 14 days                                          | 9.12%                      | Dec.                   | 9.15%  |
| 15- 29 days                                         | 9.12                       | Jan.                   | 9.15   |
| 30- 59 days                                         | 9.12                       | Feb.                   | 9.15   |
| 60- 89 days                                         | 9.12                       | Mar.                   | 9.15   |
| 90-179 days                                         | 8.91                       | Apr.                   | 9.15   |
| 180-239 days                                        | 8.91                       | May                    | 9.10   |
| 240-270 days                                        | 8.75                       |                        |        |
| \$ Industrial Paper—Prime                           |                            |                        |        |
| 30- 89 days                                         | 9.15%                      | † Federal Funds        |        |
| 90-120 days                                         | 9.15                       | Effective Rate         |        |
|                                                     |                            |                        | 9.25%  |
| ‡ Discount basis.                                   | * Subject to availability. | † Estimated.           |        |

## Selected Business Indicators

(All Dollar Figures in Billions)

|                                                 | Latest Period or<br>End of Period | Previous<br>Period | Year Ago<br>Period |
|-------------------------------------------------|-----------------------------------|--------------------|--------------------|
| Gross National Product (Current Dollars)*       | 3rd Q'83                          | \$ 3,363           | \$ 3,272           |
| Gross National Product (1972 Dollars)*          | 3rd Q'83                          | \$ 1,554           | \$ 1,525           |
| Percent Change, Annual Rate                     | 3rd Q'83                          | 7.9                | 9.7                |
| Change in Consumer Prices (new series)*         | Sep '83                           | 6.0%               | 4.8%               |
| Change in Producer Prices*                      | Sep '83                           | 2.4%               | 4.8%               |
| Civilian Employment (Thousands of Persons) †    | Oct '83n                          | 101,928            | 101,945            |
| Unemployment as % of Civilian Labor Force †     | Oct '83n                          | 8.8%               | 9.3%               |
| Personal Income*                                | Sep '83                           | \$ 2,781           | \$ 2,756           |
| Leading Indicators Composite Index (1967=100) † | Sep '83                           | 160.2              | 158.7              |

|                                              |          |             |             |          |
|----------------------------------------------|----------|-------------|-------------|----------|
| Industrial Production Index (1967=100) †     | Sep '83  | 153.7       | 151.4       | 137.3    |
| Net Change in Consumer Installment Credit †  | Aug '83  | \$ 3.39     | \$ 4.84     | \$ 0.26  |
| U.S. Merchandise Trade Balance †             | Sep '83  | -\$ 5.81    | -\$ 7.19    | -\$ 4.20 |
| Plant and Equipment Expenditures*            | 4th Q'83 | \$326.73(a) | \$313.04(a) | \$303.18 |
| Private Housing Starts (Thousands of Units)* | Sep '83  | 1,652       | 1,909       | 1,134    |
| New Construction Expenditures*               | Sep '83n | \$ 272.7    | \$ 274.8r   | \$ 230.7 |
| Total Business Inventories †                 | Aug '83  | \$ 512.1    | \$ 505.8    | \$ 521.3 |
| Total Business Sales †                       | Aug '83  | \$ 373.6    | \$ 372.4    | \$ 343.4 |

\* Seasonally adjusted annual rate.

† Seasonally adjusted.

n-Newly reported figure.

r-Revised.

a-Anticipated.

the same time, the ratio of consumer installment debt outstanding to disposable income remains at the lowest level since 1976, despite a record three-month surge in outstanding installment debt during the May-August period, indicating that the existing debt burden is manageable. In other words, consumers need less of their income to repay their debts than previously, and, thus, can spend more with the aid of new credit.

### ... Bringing Retailers Holiday Cheer

Already benefiting from the more expansive posture of consumers, retailers are hoping that this season will mark the return of traditional Holiday sales patterns. With rising sales, merchants will no longer

have to offer as many discounts to lure customers into their stores. And, unlike past years of lackluster Christmas sales when retailers got caught with large volumes of unsold inventories as demand did not meet expectations, this time consumers may face shortages of various products, if retailers keep stocks lean.

Besides cheering up the nation's merchants, the strong Holiday shopping season will obviously help the economic recovery. Faced with empty shelves on the day after Christmas, retailers no doubt will be more confident in ordering goods for winter and spring sales. In turn, this will lead to another wave of higher demand for workers, materials and productive machinery.



## Short Term Paper Outstanding

(Millions of Dollars)

|                                    | Latest Week | Change Since Week Ago | Year Ago |
|------------------------------------|-------------|-----------------------|----------|
| <b>Negotiable Time CD's</b>        |             |                       |          |
| <b>Weekly Reporting Banks</b>      |             |                       |          |
| Nationwide (10/19/83)              | 87,936      | - 921                 | -59,902  |
| New York City (10/19/83)           | 18,781      | - 401                 | -19,448  |
| <b>Commercial Paper (10/19/83)</b> | 178,194     | + 484                 | + 6,333* |

\*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

## Bank Loans

(Millions of Dollars)

| Commercial and Industrial Loans         |             |                       |          |
|-----------------------------------------|-------------|-----------------------|----------|
| Weekly Reporting Large Commercial Banks | Latest Week | Change Since Week Ago | Year Ago |
| Nationwide (10/19/83)                   | 215,449     | - 458                 | - 3,018  |
| New York City (10/19/83)                | 57,852      | - 322                 | - 4,154  |
| <b>Total Loans Gross Adjusted</b>       |             |                       |          |
|                                         | Latest Week | Change Since Week Ago | Year Ago |
| Nationwide (10/19/83)                   | 515,351     | - 1,043               | + 9,894  |
| New York City (10/19/83)                | 117,803     | - 771                 | - 3,908  |

## Financial Markets

|                                           | Friday 11/4/83 | Change Since Week Ago | Year Ago  |
|-------------------------------------------|----------------|-----------------------|-----------|
| <b>U.S. Governments, Closing Yields:</b>  |                |                       |           |
| 90-Day Billst                             | 9.10%          | + .15                 | + 1.05    |
| 180-Day Billst                            | 9.50           | - .03                 | + .75     |
| Longest Billst                            | 9.95           | + .17                 | + .85     |
| <b>Recent Issues:</b>                     |                |                       |           |
| 10 <sup>1</sup> / <sub>2</sub> s 10/31/85 | 10.70          | + .10                 |           |
| 11 <sup>1</sup> / <sub>8</sub> s 9/30/87  | 11.25          | + .08                 |           |
| 11 <sup>7</sup> / <sub>8</sub> s 8/15/93  | 11.85          | + .15                 |           |
| 12s 8/15/13                               | 11.90          | + .15                 |           |
| <b>Municipals:</b>                        |                |                       |           |
| Bond Buyer-20 Bond Index* (11/3/83)       | 9.79%          | - .02                 | - .17     |
| Blue List Total (\$ Million)              | \$1,431        | - \$ 31               | + \$ 310  |
| 30-Day Visible Supply (\$ Million)        | \$2,225        | - \$255               | - \$4,091 |
| Total                                     | \$3,656        | - \$286               | - \$3,781 |
| <b>Corporates:</b>                        |                |                       |           |
| Moody's Aa Composite (11/3/83)            | 12.68%         | + .13                 | + .25     |
| 30-Day Visible Supply (\$ Million)        | \$1,425        | - \$325               | + \$ 430  |
| <b>Stocks:</b>                            |                |                       |           |
| <b>Dow-Jones Averages:</b>                |                |                       |           |
| Industrials                               | 1,218.29       | - 5.19                | + 166.51  |
| Transportation                            | 586.60         | + 9.99                | + 134.41  |
| Utilities                                 | 138.58         | - .68                 | + 16.03   |
| 65 Stocks                                 | 493.93         | + .98                 | + 81.26   |
| Standard and Poor's 500 Stocks            | 162.44         | - .93                 | + 20.28   |
| N.Y.S.E. Composite Index                  | 93.77          | - .51                 | + 11.94   |
| N.Y.S.E. Avg. Daily Vol. for Week (000's) | 83,350         | + 1,574               | - 29,042  |

## International Rates

|                                       | Friday 11/4/83            | Week Ago                    |
|---------------------------------------|---------------------------|-----------------------------|
| <b>EURODOLLAR DEPOSIT RATES (bid)</b> |                           |                             |
| Overnight                             | 9.38%                     | 9.38%                       |
| 1 month                               | 9.56                      | 9.44                        |
| 3 month                               | 9.81                      | 9.56                        |
| 6 month                               | 9.94                      | 9.69                        |
| 1 year                                | 10.25                     | 10.00                       |
| <b>EURODOLLAR BONDS</b>               |                           |                             |
| <b>Average Yield</b>                  |                           |                             |
| Medium Term (5 to 7 yrs.)             | 11.55%                    | 11.50%                      |
| Long Term (7 to 15 yrs.)              | 11.65                     | 11.60                       |
| <b>FOREIGN EXCHANGE SPOT RATES</b>    |                           |                             |
| <b>New York Opening (11/4/83)</b>     | <b>U.S. \$ Equivalent</b> | <b>Currency Per U.S. \$</b> |
| Belgium                               | .01847                    | 54.13                       |
| Canada                                | .8102                     | 1.2343                      |
| Denmark                               | .1045                     | 9.5715                      |
| France                                | .1234                     | 8.1025                      |
| Germany                               | .3755                     | 2.6630                      |
| Italy                                 | .0006188                  | 1616.00                     |
| Japan                                 | .004246                   | 235.50                      |
| Mexico                                | .006289                   | 159.00                      |
| Netherlands                           | .3349                     | 2.9858                      |
| Switzerland                           | .4623                     | 2.1633                      |
| U.K.                                  | 1.4860                    | .6729                       |

\* 46% Taxable equivalent 18.13%.

† Bond equivalent.



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